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February, 1982

Simmons Oil: Phoenix's Latest Rising Star

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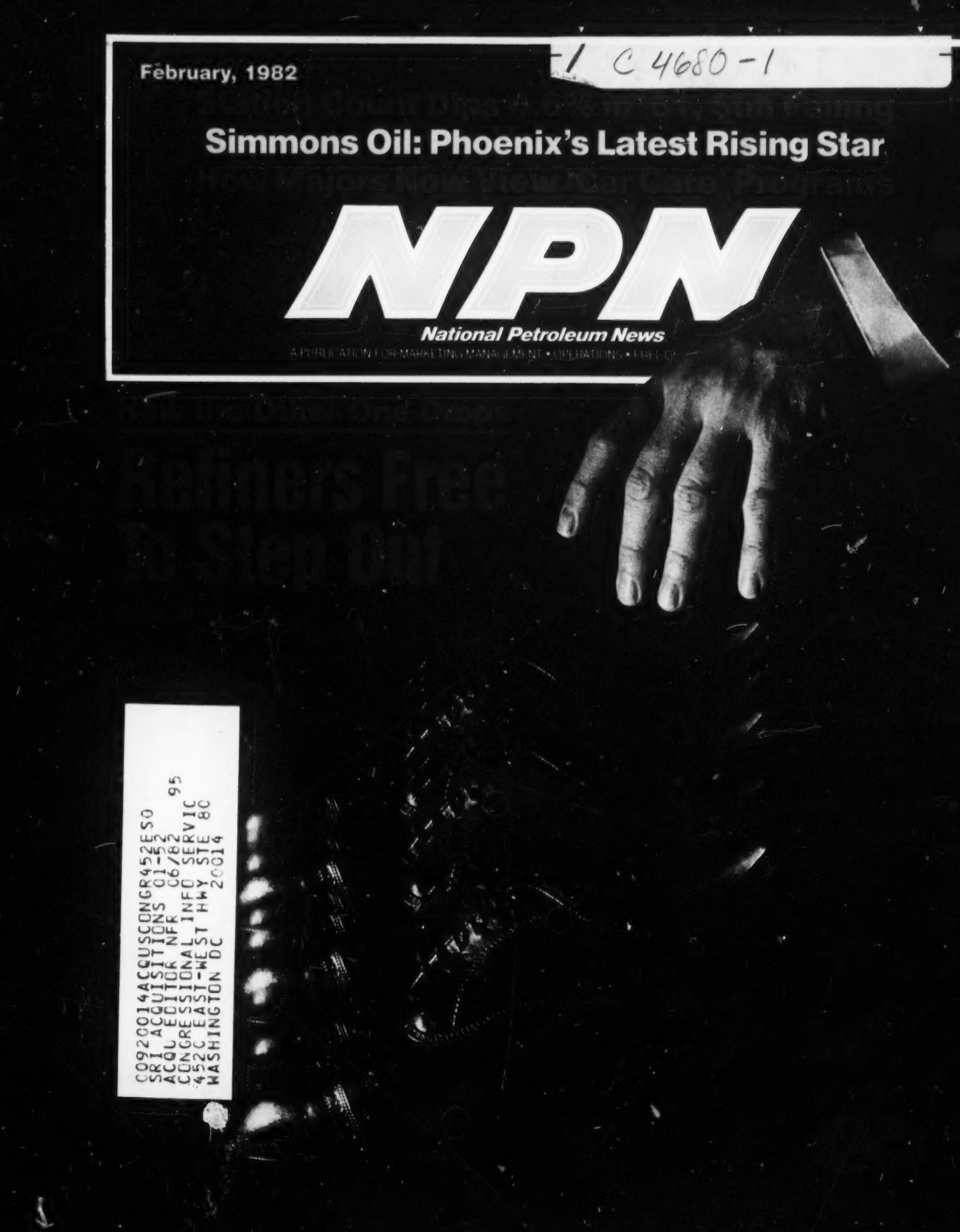

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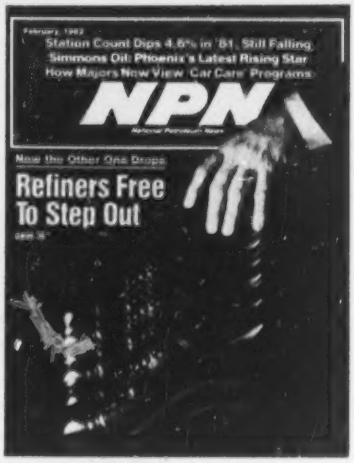
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Simmons Oil: Phoenix's Latest Rising Star
How Majors Now View 'Car Care' Programs
NPN
Now the Other One Drops
Refiners Free
To Step Out

Cover photo by Eric J. Barrick

On the Cover

Ever since President Reagan shook the industry by lifting price and allocation controls eight months ahead of schedule last January, marketers have been uneasily waiting for refiners to drop the other shoe. Some changes indeed have taken place the past year. But slow and cautious moves by refiners are no longer constrained by pledges for a one-year "grace period"—the year is up. Refiners may be bolder and more sweeping in their business policy changes than at any time since D-day. Page 36.

Amoco Market Strategy

Within recent months, Amoco has reduced its field offices from five to three, announced plans to withdraw from 11 states, put its midwestern and western jobbers on terminal pricing plans, tightened up its credit terms and begun experimenting with credit card fees. Sam Van Sickle, Amoco's marketing vice president, offers testimony for the company's moves. Page 40.

Phoenix Star

The West's Simmons Oil Corp. has become a billion-dollar (sales) wholesaler in about the time it took oil prices to go from $3 to $30-plus per barrel, e.g., less than 10 years. For owner Jerry Simmons, 32, the gasoline shortages that broke the backs of many independents in the 1970s actually turned out to be a blessing in disguise. Page 42.

Majors' Chips on Dealers

The major oil companies, moving out of intensive involvement in TBA at retail for the better part of a decade, are turning thumbs up to "car care" programs for which dealers take the lion's share of responsibility. The latest retail thrust—"Trust Us, We Guarantee"—is a new pitch for brand loyalty. Page 46.

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• TRENDS

Propane-Powered Cars: A New Market to Be Reckoned With?

Ford's recent announcement that it is going to sell a limited number of propane-powered passenger vehicles this year means that LPG's great adventure is close at hand. The key questions: Can propane make it on its own in the rapidly burgeoning field of exotic motor fuels? And, two, can suppliers and retailers accommodate this new market and gear up for it quickly enough if it makes the big splash that's possible?

There are tens of thousands of propane-powered trucks, fleet vehicles and agricultural machines already in operation. They've been coming on strong the past several years as gasoline prices sped upwards. Virtually all of these pieces of equipment are conversions, however. Ford is the first major car manufacturer to take the original equipment plunge. In its own way, this gives small but important recognition to LPG as a viable option with a yet-to-be-assessed potential for the future.

Why LPG instead of gasoline? For the consumer, even the disinterested motorist, the economics are exciting. Propane goes for around 50¢ gal. now. That's considerably less than gasoline or diesel. Even if the price goes up, which it undoubtedly will as it acquires acceptance and popularity, it will be a long, long time before it catches up with or surpasses gasoline.

For trucks, fleets and big-league motorists with high mileage records, the savings can be enormous.

Ford says it is going to move slowly. The propane option will be available only on Ford Granadas and Mercury Cougars this year. Fleet operators will get the first crack at them. Next year the market will be broadened to include the general public. Ford expects to sell about 5,000 cars this year, mostly in Canada where tax breaks are available, and 10,000 next year when they can be purchased in U.S. showrooms.

An example of the potential is what is going on in Canada. CNG Fuel Systems, Calgary, recently reported that it plans to open three service stations to handle propane cars. It is looking forward to operating additional stations in Vancouver, Toronto, Edmonton and Montreal. It believes that by 1986, there will be at least 500,000 private and fleet vehicles capable of using propane on the road, and that it will have 500 outlets to service them from coast to coast.

Currently, it costs from $1,200 to $2,000 to convert a car or a truck to LPG. Ford says its original equipment option will be around $900, a savings in its own right. And the lower cost fuel means it can be amortized in a matter of months by the heavy driver, or in 12 to 15 months by the average motorist who does about 10,000 miles a year.

Propane-powered cars are making it big in Europe. A Shell executive recently reported that there are more than 750,000 propane-powered passenger vehicles in Italy alone. The Netherlands has another 350,000. Western Europe is taking it all in stride. So are the retailers, with thousands of places already offering gasoline, diesel and propane to all comers.

Here at home, a national magazine estimated recently that 350,000 vehicles were converted from gasoline to propane in 1981 alone.

The coming of propane as a motor fuel poses a variety of safety and service problems for suppliers, retailers and equipment manufacturers. When diesel fuel, which it may some day rival, made its transition to passenger cars, storage and refueling problems were minimal.

Because LPG is pressurized, greater safety precautions will be required: for storage, for refuelings, for just about everything. The problems can be handled, however. Europeans are now using "dead man controls" and other devices to insure safe refills. U.S. retailers and fleets also seem to have mastered safety problems. This is on a small scale, though. Wide open operations may create even bigger headaches.

Space may be a factor for retailers, too. Many states require storage of propane at safe distances from other volatile fuels and structures. This could mean that propane dispensers might have to be isolated from the conventional islands.

What about self-service? Self-serve motor fuel marketing is legal now in all but two states—New Jersey and Oregon. But it was an arduous affair to get self-service approved in fire and safety codes in many states. Will this tortoise-like process also inhibit the growth of propane in the years immediately ahead? Or will it give full-service stations a leg up on self-service operators?

The implications of LPG are enormous for gasoline suppliers, jobbers, retailers and consumers. Within the next two or three years a free marketplace and a cost-conscious public may make some interesting decisions.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

NOVEMBER	Gasoline (all types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.351	$1.297	$1.369	$1.462
Regions:				
Northeast	1.379	1.330	1.386	1.462
North Central	1.336	1.294	1.360	1.425
South	1.323	1.267	1.339	NA
West	1.399	1.329	1.420	1.474

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	12/18/81	12/19/80
Gasoline (total)	251,854	250,313
Gasoline (unleaded*)	95,586	96,020
Kerosine **	44,707	48,740
Distillates	191,087	207,182
Residual	82,094	95,870

**Included in gasoline total.*
***Includes jet fuel.*
Source: American Petroleum Institute.

Service Station Population Down But Not Out

The service station population in the U.S. is still declining but at a much slower rate than some industry prognosticators had anticipated.

The Bureau of Industrial Economics of the U.S. Department of Commerce says the population dropped to 151,253 stations by the end of 1981 and that it could be expected to slump another 2.8% to 147,000 by the end of 1982. The 1981 fallout resulted in 4.6% fewer stations than projected at the end of 1980 [see table below].

The Bureau's track record in estimating trends in the service station population has been pretty close to reality through the years, a comparison of past surveys confirms.

This time last year, for example, the Bureau estimated the population would be around 152,000 by the end of 1981. The new projection, issued just last month, differed only slightly.

This is much better, too, than another forecast in early 1981 that said the number of retail outlets in the U.S. had already dipped to 132,000.

Service stations, as defined by the latest study, "Franchising in the Economy, 1980-1982," are those which generate more than 50% of their income from the sale of petroleum products.

They do not include other thousands of outlets connected with convenience stores, mass merchandisers and in rural areas. If these are taken into consideration, a fair estimate of the total service station universe might be around 220,000, according to knowledgeable industry observers.

But while the number of stations continued to decline last year, the dollar volume per station continued to spurt into uncharted realms.

Total sales of products and services, already up 11.3% in 1981, are expected to shoot up another 12% in 1982 to an unprecedented peak of $117.8-billion. By way of comparison, 1981's total was $105.1-billion and 1980's, $94.5-billion.

The projected slump of 2.8% for 1982 in the service station population is one of the mildest in recent years. The last percentage figure to go below this one was in 1977, when the decline was measured tentatively at 2.4%.

Peak year for the service station population was in 1972 when it topped 226,000 outlets. On that basis, the 1982 projection of 147,000 stations would reflect a decline of 35% in approximately 10 years.

One reason the curve in 1981 flattened a bit could be an inverse result of the gasoline glut.

The big push had been to eliminate the 30,000 to 40,000 gal. per month service stations and concentrate on the pumpers. But with gasoline in excess supply everywhere, and national/regional refiners fighting to hold on to their gallonage ratios, there appeared to be a slowdown in the tendency to eliminate outlets for the sake of concentration and efficiency.

What 1982 will bring is another question, however.

Gasoline decontrol occurred almost overnight in January of 1981. But many suppliers took it easy in implementing withdrawal programs they had been planning for years.

Now the fuzz is off the peach, as became obvious in Mobil's determined bid to buy Marathon Oil. Retrenchment is expected to be in full swing in 1982, and what this will do to the total number of outlets remains to be seen [see page 36 for likely refiner moves in 1982]. NPN

Almost 5% of the nation's traditional 'service station' population went by the wayside in 1981. Sales at surviving outlets, however, ballooned 11.3% to $105-billion.

Stations Are Down But Dollar Volumes Are Up

	1982	% Change	1981	% Change	1980	% Change 1982-1980
U.S. station total (a)	147,000	−2.8%	151,250	−4.6%	158,540	−7.3%
Company-owned	26,460	−2.8	27,225	−4.6	28,537	
Franchisee-owned	120,540	−2.8	124,025	−4.6	130,003	
Total sales of products and services ($000,000)	$117,762	+12.0	$105,145	+11.3	$94,470	+24.7%
Company-owned	21,197	+12.0	18,926	+11.3	17,005	
Franchisee-owned	96,565	+12.0	86,219	+11.3	77,465	

(a) As of Dec. 31 of each year; These are service stations as defined by U.S. Census Bureau, i.e., stations with 50% or more of their income being derived from the sale of petroleum products.

Source: Bureau of Industrial Economics, U.S. Department of Commerce, "Franchising in the Economy, 1980-1982."

Mobil Owes Other Cos. $50-Million: High Court

In a decision that ultimately could prove expensive for Mobil Oil Corp. and everyone connected with the company, the U.S. Supreme Court has rejected Mobil's appeal of an Energy Department finding that the refiner owes $50-million to independent refiners as part of the "wind-up" of DOE entitlements.

The appeal was turned down without comment, with the justices apparently agreeing with government attorneys that further review was unnecessary because the entitlements law expired last September.

Rejection of the appeal does not necessarily mean Mobil will have to pay the $50-million DOE says it owes, because a special appeals court ruling that would permit Mobil to pursue "other avenues of appeal" remains in effect.

The case began early last year when DOE, as part of the phase-out of oil controls, found that Mobil still owed $50-million. Under the entitlements program, companies with access to lower priced, controlled crude oil shared the benefit with smaller independent firms that had to rely mostly on higher priced imported crude—as a way of equalizing crude costs among all refiners. Fighting the DOE claim, Mobil said the smaller firms used manipulation to hide their own controlled crude costs in order to increase the entitlement payments owed them. Until the government corrected that problem, Mobil said, the larger refiners shouldn't have to pay the entitlement payments left over.

Shaheen Suit Seeks Billions from Mobil

Entrepreneur John M. Shaheen is pressing a multi-billion dollar damage suit against Mobil Oil, contending in a New York State Supreme Court filing that he was victimized by an economic boycott and an international conspiracy.

Shaheen's Shaheen Natural Resources Co., New York, owned an 87% interest in the Newfoundland Refining Co., the Provincial Refining Co. and a refinery at Come By Chance, Newfoundland, before all three went bankrupt in 1976.

The oil man alleges that he was "deceived" by Mobil and fraudulently induced to sign away his "first call" rights on oil found in offshore areas—including the Hibernia and Ben Nevis fields which now are being developed as major discoveries.

Shaheen also claims that Mobil used its economic power to encourage a boycott of products manufactured at the refineries in 1974-76. The suit named Japanese, American and Canadian firms. Triple damages of $3.8-billion are being sought.

At presstime, Mobil had no comment saying it had heard about the suit but had yet to be served with the papers.

API Study Says Independents Gain Greater Market Share

Subtle but significant shifts in market shares over the past decade are apparent in an American Petroleum Institute (API) "discussion paper" spanning 30 years of oil history.

Released just before the new year, the study shows that the major and semi-major oil companies have lost ground to the independents in distribution of gasoline and other products.

There's no need to be concerned about the big companies, however. Even though their hold has eroded somewhat, the top 20 still distribute seven out of every 10 gallons of refined products.

The marketing data are only one segment of a study that was intended to demonstrate statistically the decline in energy industry concentration ratios, especially over the past decade [see accompanying table].

Some of the highlights:

Gasoline market shares: the top four companies, down 2.2% between 1980 and 1970; the top 8, −5.3%; the top 15, −9.5%; and the top 20, −9.0%. In reverse fashion, this means that independents now account for 9% more of the gasoline market than they did in 1970.

Refined products: The story here is similar, with the top 4 down 6.4%; the top 8, −11.2%; the top 15, −12.1%; and the top 20, −10.5%.

Refining capacity: The top 4, −3.5%; top 8, −8.5%; top 15, −11.1%; and the top 20, −9.8%.

Refining throughput: Here again, the data show comparable decreases in all four categories. Of interest, however, is the fact that while the industry had unused capacity of around 2-million b/d in 1970, the unused total in 1980 was almost 5-million b/d.

The study, entitled "Market Shares and Individual Company Data for U.S. Energy Markets: 1950-1980," was prepared by API's policy analysis department.

A caveat specifies that "the contents of this paper are for the purposes of study and discussion and do not necessarily represent the views of the American Petroleum Institute or any of its members." NPN

(Highlights of an American Petroleum Institute study on the decline of oil industry concentration ratios, 1970-1980).

	1980		1975		1970		
	Sales	% of National Market	Sales	% of National Market	Sales	% of National Market	% Decline 1970-1980
Refined Products (Add 000,000 gal.)							
Top 4 Cos.	71,852	27.6	77,677	31.0	76,573	34.0	−6.4
Top 8	114,761	46.1	128,343	51.3	139,094	57.3	−11.2
Top 15	169,734	65.1	174,655	69.8	173,950	77.2	−12.1
Top 20	187,670	72.0	191,702	76.6	185,892	82.5	−10.5
U.S. Total	**260,702**	—	**250,216**	—	**225,305**	—	—
Refinery Crude Runs (Add 000 b/d)							
Top 4 Cos.	4,231	31.4	4,091	32.9	3,719	34.2	−2.8
Top 8	7,323	54.3	7,174	57.7	6,627	61.0	−6.7
Top 15	9,879	75.3	9,878	79.4	9,194	84.6	−9.3
Top 20	10,915	81.0	10,804	86.8	9,901	91.1	−10.1
U.S. Total*	**13,483**	—	**12,442**	—	**10,870**	—	—

*Includes Puerto Rico

Special note: Because of the shifts in market shares, the companies in the various categories are not automatically the same year after year.

Source: "Market Shares and Individual Company Data for U.S. Energy Markets: 1950-1980," Discussion Paper #014R, American Petroleum Institute.